Item 546-D GA 1.13:PAD-81-22

BY THE COMPTROLLER GENERAL

ORIGIN

Report To The Congress

OF THE UNITED STATES

Federal Budget Totals Are Understated Because Of Current Budget Practices

The Government's practice is to offset (subtract) certain types of revenues when computing and reporting budget outlay and revenue totals. This understates outlay and revenue totals since they are reported on a net rather than gross basis. Additionally, budget totals are further underreported because of the off-budget status of certain Federal activities. GAO believes that budget totals would be more meaningful if these offsetting and off-budget practices were eliminated. If these changes were made:

--total outlays would be about $120 billion higher,

--total revenues would be about $102 billion higher, and

--the deficit would be about $18 billion higher.

Fully disclosing total levels of Federal activities would allow the Congress to more effectively exercise control over the Federal budget.

PAD-81-22
DECEMBER 31, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-201525

The President of the Senate and the
Speaker of the House of Representatives

This is one in a series of reports by GAO on budgetary concepts and procedures that we believe should be reexamined. This report concerns a longstanding budget concepts issue on the proper budget treatment of business-like revenue 1/ from the public. The report also addresses how the continuing off-budget status of certain Federal activities similarly produces underreported budget totals. We continue to believe that the Government's practice of offsetting (subtracting) Federal business-like revenue from budget totals significantly understates outlay and revenue totals and that off-budget activities should be returned to on-budget status.

The following data show how eliminating the offsetting and off-budget practices would affect budget totals. The

	Outlays	Revenue	Net cash flow
Base budget totals--FY 1981 estimates (with net reporting)	$615.8	$600.0	$-15.8
Return off-budget entities to unified budget (with net reporting)	+ 18.1	-	-18.1
Report business-like revenue on a gross basis:			
--on-budget entities	+ 70.1	+ 70.1	-
--off-budget entities	+ 31.5	+ 31.5	-
Alternative "gross reporting" budget approach	$735.5	$701.6	$-33.9

1/Federal business-like revenue results from market-oriented activities of the Government (for example, loan repayments, interest, sale of property and products, charges for non-regulatory services, and rents and royalties).

base amounts (in billions of dollars) are fiscal year 1981 estimates contained in the 1981 budget (released in January 1980).

Federal business-like revenue from the public is offset from budget authority 1/ and outlay totals (and not included in Government revenue totals). Therefore, only the net amounts are included in budget summary tables and congressional resolutions. For example, the Emergency Mortgage Purchase Assistance Fund in the Government National Mortgage Association is projected to receive $1.4 billion in business-like revenue from the public for fiscal year 1981. The $1.4 billion was subtracted from the gross outlay total of $1 billion to arrive at a -$0.4 billion net outlay total reported in the various budget tables.

As shown in enclosure III, eliminating offsetting and off-budget practices would increase the $600 billion revenue total by almost $102 billion. Excluding such major spending amounts is a matter of serious concern because such budget practices weaken the budgetary process and reduce the Congress' ability to establish national spending priorities under the Congressional Budget Act of 1974. Furthermore, the excluded amounts are now so large that they limit the unified budget's usefulness as the controlling device.

In addition to the major conceptual problems these practices create by understating outlay and revenue totals, we noticed another problem associated with these practices--permanently earmarked business-like revenue received from the public. For example, business-like revenue resulting from the sale of power by the Tennessee Valley Authority (TVA) is permanently earmarked for spending by the TVA to finance its cycle of business-like operations. The fiscal year 1981 budget projects over $76 billion (government-wide) in offsetting collections to be earmarked for outlay without current action by the Congress.

Some of the laws that permit earmarking of business-like revenue without current congressional action are extremely old. The Congress should enact authorizing legislation so that earmarked business-like revenue will have either an

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1/Budget authority is authority provided by law to enter into obligations that will result in immediate or future outlays involving Government funds, except that such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government. The basic forms of budget authority are appropriations, contract authority, and borrowing authority.

expiration or required review date. We believe the amount of authority should be specified through normal appropriation action and included as an element of budget authority.

REPORT OBJECTIVES

In a report entitled "Revolving Funds: Full Disclosure Needed for Better Congressional Control" (PAD-77-25) August 30, 1977, we first analyzed the impact offsetting practices have on budget outlay totals for public enterprise revolving funds. We stated in that report that presenting Federal business-like transactions with the public in gross figures would more accurately present the magnitude of Federal spending. We noted that offsetting excluded an estimated $28 billion in outlays for public enterprise revolving funds alone from the budget totals for fiscal year 1977.

The Office of Management and Budget (OMB) in responding to our 1977 and subsequent reports disagreed with our recommendation to discontinue offsetting. They argued that implementing such a recommendation would result in varying budget treatment of outlays currently affected by business-like revenue because of differences in account classification. Public enterprise revolving fund account outlays would be treated on a gross outlay basis, while other outlays currently offset by similar business-like revenue would continue to be reported on a net outlay basis. We agree that such inconsistent treatment would not be desirable. We believe all outlay totals currently affected by offsetting Federal business-like revenue from the public should be reported on a gross outlay basis in the budget documents.

Therefore, we conducted this follow-on study to identify the magnitude of the offsetting practice in other areas besides public enterprise revolving funds. The results show that the reported outlays of on-budget activities are also understated because business-like revenue is offset from outlays in two additional areas: (1) in other accounts, e.g. "general," "special," etc., 1/ and (2) in agency outlay totals. 2/

1/OMB's response to our earlier report did not mention the offsetting practice in these accounts. Offsets here are termed offsetting "collections"--a subset of revenue going to appropriation accounts.

2/Offsets are offsetting "receipts"--a subset of revenue that goes to the Treasury. See enclosure I for a definition of these terms and to see where these subsets of revenue are deposited and how they are made available for spending.

This report provides information to illustrate how a change in reporting revenue can effect budget totals. Supporting details are provided in the enclosures to this letter.

We reiterate our prior reports' recommendations that full budgetary disclosure should require the reporting of budget totals on a gross rather than net basis, and the inclusion of current off-budget amounts in the budget's totals. See enclosure V for digests of prior reports containing these recommendations.

METHODOLOGY

This is one of a series of reports by GAO on budgetary concepts and procedures that we believe should be reexamined. Several current Federal budget concepts and practices are either at variance with the recommendations of the 1967 President's Commission on Budget Concepts or are contrary to published GAO positions. GAO is now identifying and analyzing these outstanding budget issues and plans to issue a report on those matters in early 1981. These studies are part of our budgetary and program information classifications and reporting work required by Section 202 of the Legislative Reorganization Act of 1970, as amended by Title VIII of the Congressional Budget Act of 1974.

The concepts discussed in this study are based on analyses and recommendations from prior reports (see p. 12). In subsequent sections of this report, we adjust budget totals to show what the effect would be if the offsetting and off-budget practices were eliminated. These adjustments involve offsetting and off-budget practices only. No adjustments have been made to reflect our previous positions on other budget practices that affect budget totals. We looked at how much control the Congress has over outlays offset by business-like revenue from the public and whether budget documents present these outlays in a direct, simple, and complete manner.

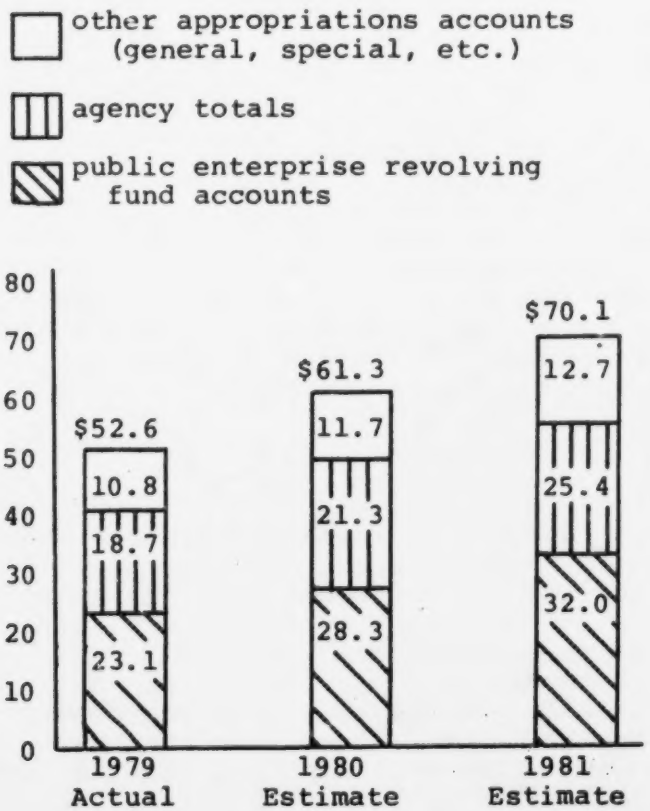
Most of the statistical and financial information used in this report are from an analysis of "The Budget of the United States Government, 1981," its "Appendix," its "Special Analysis," and OMB's computer tapes. We also relied on similar documents for selected previous years and on the Department of the Treasury's "Combined Statement of Receipts, Expenditures and Balances of the United States Government." Other information in the report came from numerous interviews held with officials at the Office of Management and Budget, and the Departments of the Treasury, the Interior, and Agriculture.

UNDERSTATEMENT OF ON-BUDGET OUTLAY TOTALS DUE TO OFFSETTING

Figure 1 shows the budget totals in billions of dollars for on-budget activities. In addition to the $70.1 billion in offset 1981 outlays for on-budget Governmental activities, there is another $31.5 billion of outlays for off-budget Federally-owned entities that are not counted in budget totals. The combined on-budget and off-budget understatement of outlay totals--$101.6 billion--represents a significant, continuing problem. The $101.6 billion understatement for 1981 is 16 percent of on-budget and off-budget outlay totals. In fiscal year 1967, the understatement due to offsetting was $31.9 billion, representing about 20 percent of outlay totals.

Figure 1

On-Budget Activities
Outlays Offset in FY 1981 Budget Totals
(Billions of Dollars)



The 1967 President's Commission on Budget Concepts recommended current offsetting practices

Present practices of offsetting revenue from outlays to produce lower (net) outlay totals were recommended by the President's Commission on Budget Concepts. In its 1967 report, the Commission recognized, however, that (1) offsetting revenue against outlays understates the total impact of the Government on the economy, (2) net outlay treatment conceals important information but presenting gross outlays would permit the users of the budget document to gross or net (receipts and collections) as they saw fit, and (3) reconstructing gross outlay totals is difficult if only the net amount is reported. Nevertheless, the Commission recommended that outlays be reported as the net of Federal business-like transactions with the public.

The Commission supported its position on net outlay reporting with three major themes: disclosure in the budget, the measure of the Government's role in the economy, and consistency of budgetary reporting. Each of these points is discussed below. We think that circumstances today, particularly the changes brought about by the 1974 Congressional Budget Act, indicate a need to depart from the 1967 Commission's recommendation.

Changes brought about by the Congressional Budget Act

We believe that circumstances have changed considerably since the time the Commission made its recommendations. Budget procedures and public attitudes about the budget are much different today. Much of this change has been reflected through passage and implementation of the Congressional Budget Act of 1974.

Disclosure in the budget

Spending levels, as reflected in the congressional budget resolutions, are aimed at exerting discipline when the congressional budget is formulated. That outlays are offset by Federal business-like transactions with the public and are accounted for in the budget totals on a net basis greatly affects aggregate spending totals reflected in the resolutions. Counting budget totals on a net basis does not allow the Congress to restrict outlays made from business-like revenues. These offsetting totals should be important when establishing budget outlay levels for functional categories in the resolutions. The resolutions are where the decisions on setting national priorities by allocating resources are made (i.e.,

who gets what out of the budget). Not including offset outlay items makes it unnecessarily complicated to determine the exact amount of Federal resources that are being expended for a functional area or areas.

Enclosure II shows functional and aggregate budget outlay totals with and without the use of offsetting and off-budget practices. It also shows how functional areas are affected differently by offsetting practices. Using fiscal year 1981 (estimate) data as an example, Commerce and Housing Credit would change from being the smallest function ($0.7 billion) to the fifth largest ($60.1 billion), if practices--offsetting as well as off-budget status (discussed later)--were changed. Current practices give the appearance that the Federal Government is spending less for some functions such as Commerce and Housing Credit (an advantage when competing under the provisions of the Congressional Budget Act) than for other functional categories that do not have their outlays substantially affected by offsetting or off-budget practices.

The Government's role in the economy

We believe passage of the Congressional Budget Act increases the importance of analyzing the trends and impact of each major group of Government activities. At present, the measured impact that various programs have in the budget differs depending upon concepts used. Total revenues should be shown so that the budget committees can identify and control actual Government resources being spent and can appraise their effect on the economy.

Consistency of budgetary reporting

We believe the situation today is much the same as in 1967 because budget outlay totals are still dependent on how revenue is classified by source. We believe offsetting is part of the problem, rather than part of the solution, as suggested by the Commission. In our opinion, reporting outlays on a gross basis would make budget outlay and revenue reporting truly consistent among budget accounts, functions, and the resolutions.

OFF-BUDGET ENTITIES

The President's Commission on Budget Concepts recommended guidelines on how programs should be included or excluded from the budget totals. The Commission concluded that all outlays of programs operated by entities in which the capital

stock is owned by the Government, or which have recourse to Federal funds, should be included in the budget. The Commission viewed the unified budget concept--all Federal activities financed with Federal funds would be included--as its most important recommendation. The Commission's recommendations--including a unified budget--were adopted in 1969. Since the President's Commission report, however, legislation has been enacted that exempts several Federal programs from the discipline of the overall budget process. These entities, along with their impact on the budget, are listed in table 1.

Giving off-budget status to certain entities adversely affects budget outlay reporting in two ways. First, these off-budget entities do not report any of their outlays in the budget outlay totals. Second, these off-budget entities currently have their outlays recorded (in off-budget totals) on a net basis. Therefore, if the Federal programs were returned to the budget and fully reported in the budget totals, we believe that not only their net outlays should be reported but the outlays not reported because of offsetting should be also. Below are the outlay amounts in billions of dollars for these off-budget entities.

Figure 2

Outlays of Off-Budget Entities
January 1980 (billions of dollars)

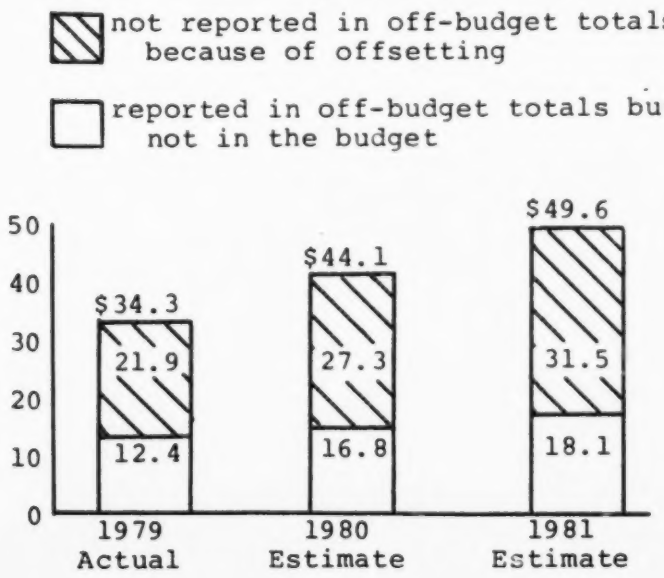


Table 1

Off-Budget Federal Entities
Outlays Reported and Not Reported Due to Offsetting
(dollars in millions)

	1979 actual			1980 estimate			1981 estimate		
	Reported	Not Reported	Totals Not in Budget	Reported	Not Reported	Totals Not in Budget	Reported	Not Reported	Totals Not in Budget
Department of Agriculture									
Rural Electrification and Telephone Revolving Fund	$ -4	$ 586	$ 582	$ 0	$ 666	$ 666	$ 0	$ 705	$ 705
Rural Telephone Bank	101	58	158	150	74	224	144	90	235
Department of Labor									
Pension Benefit Guarantee Corporation	-39	82	44	-37	87	50	-44	98	54
Department of Treasury									
Federal Financing Bank	13,172	5,679	18,851	16,408	10,562	26,972	16,316	13,921	30,237
United States Railway Association									
Regional Rail Reorganization Program	89	24	113	68	23	91	68	26	94
Postal Service	-891	15,437	14,547	178	15,936	16,114	1,606	16,670	18,276
TOTAL	$12,428	$21,867	$34,295	$16,766	$27,348	$44,114	$18,090	$31,510	$49,600

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ADDITIONAL CONSIDERATIONS

The use of business-like revenue to offset reported spending levels is only one problem--a conceptual one pertaining to the full disclosure of budget totals. The treatment of business-like revenue diminishes congressional control for other reasons as well in that it involves "backdoor" spending and the use of old authorizing legislation.

Backdoor spending

Most of the business-like revenue for on-budget and off-budget activities is earmarked by law for spending on only specified activities. OMB estimates about $76.2 billion in business-like revenue for fiscal year 1981. Once this revenue is collected by various appropriation accounts--termed offsetting "collections"--it may be spent immediately and spent without the need for any congressional appropriation action that creates budget authority. Additionally, a portion of the $25.4 billion (FY 81 estimate) in revenue to be deposited first in Treasury special fund receipt accounts--termed offsetting "receipts"--will be automatically transferred to certain appropriation accounts for expenditure. In our opinion, both cases result in a form of backdoor spending.

Procedures in the Congressional Budget Act of 1974 restrict backdoor authority but do not restrict earmarking Federal business-like revenue from the public. Therefore, the Congress, in setting spending targets and ceilings under the congressional budget process, generally does not place restrictions on spending business-like revenue. We believe the amount of authorized spending should be specified through normal appropriation action, included as an element of budget authority, and subjected to congressional budget spending targets and ceilings.

Periodic reauthorization necessary to validate need

Agencies are permitted to earmark business-like revenue for appropriation accounts only if expressly authorized by law. Yet, the laws that permit earmarking can be extremely outdated. These laws authorize earmarking business-like revenue permanently and indefinitely. For example, the Department of Agriculture gained its authority to earmark business-like revenue received from the sale of photographs and maps in 1938.

Our discussion with officials in the Department of the Interior, the Department of Agriculture, and OMB disclosed that these agencies do not systematically or periodically

verify authority to earmark revenue. Some of the legal authorities relied on by the agencies were for general discretionary powers not specifically related to earmarking. For example, about $3.4 million collected by the Department of the Interior for firefighting services were earmarked for the Management of Lands and Resources Account under inadequate authorities. Such situations can occur if verifications are not independently made and if the Congress does not reauthorize accounts.

Because of the changes in economic conditions, agency organization, and program objectives, some permanent authorities to earmark business-like revenue may no longer be valid nor meet current congressional desires. We believe that these authorities should have expiration or required review dates so that the Congress can periodically reconsider and reauthorize the earmark authority.

EFFECT ON BUDGET TOTALS IF BOTH OFFSETTING AND OFF-BUDGET PRACTICES WERE ELIMINATED

The size of the Federal budget is becoming an increasingly important issue to the Congress and the public because of concern over inflation, potential changes in tax burdens, the size of the Federal deficit, and calls for Federal spending restraint. In considering the President's proposed budget, the Congress needs answers to several questions:

--Do budget tables and summaries fully disclose the level of Federal financial activities?

--What can be done to improve congressional control over the various types of spending authority?

Our purpose in issuing this report is to illustrate to those using the budget as a tool for decisionmaking that all Federal financial activity is not included in budget totals and this exclusion greatly affects congressional debate, decisions, and control over the budget. If offsetting and off-budget practices were eliminated, the effect on the budget totals would be as noted in table 2.

Under the revised procedure, overall revenue would increase as well as overall outlays. Business-like revenue now used as offsets would, under the revised procedure, be included in receipt totals.

Table 2

Budget Totals Without Offsetting and Off-Budget Practices January 1980 Estimates

(dollars in billions)

	1979 Actual	1980 Estimate	1981 Estimate
Current (net) totals with offsetting and off-budget practices			
Revenue	$465.9	523.8	600.0
Outlays	493.6	563.6	615.8
Surplus or deficit (-)	-27.7	-39.8	-15.8
Revised (gross) totals without offsetting and off-budget practices			
Revenue	540.4	612.4	701.6
Outlays	580.6	669.0	735.5
Surplus or deficit (-)	-40.2	-56.6	-33.9
Difference			
Revenue	74.5	88.6	101.6
Outlays	87.0	105.4	119.7
Surplus or deficit (-) a/	$12.5	$16.8	$18.1

a/This presents the surplus or deficit of the current off-budget entities. The surplus or deficit of off-budget entities is the same as their net outlays.

AGENCY COMMENTS

The Office of Management and Budget (OMB) has disagreed with prior GAO reports recommending gross reporting of budget totals. They have favored the recommendations of the 1967 President's Commission on Budget Concepts regarding off-setting. The OMB responses to our earlier reports, "Revolving Funds: Full Disclosure Needed for Better Congressional Control" (PAD-77-25), August 30, 1977; "Federal Budget Outlay Estimates: A Growing Problem" (PAD-79-20), February 9, 1979; and "Spending Authority Recordings in Certain Revolving Funds Impair Congressional Budget Control" (PAD-80-29), July 2, 1980, were instrumental in our undertaking of this report.

OMB's position on off-budget entities is discussed in "The Budget of the United States Government, 1981," pages 326 to 333.

In responding to this report (see enclosure IV for the letter), OMB continues to disagree with our position that business-like revenue received from the public should not be offset to reduce budget totals. They restate several objections. First, they state that they continue to adhere to the recommendations of the President's Commission on Budget Concepts (which favor offsetting). We discuss our disagreement with the Commission on pages 5-7 of this report. We think that a genuine measure of the Government's activities is through reporting gross levels of spending activity. The aim of this report is to change budget concepts to include total expenditures and revenues.

Also, OMB reasserts that full information is disclosed on gross collections in individual accounts which may be considered by the Congress when making priority allocations among functions. We recognize that the budget documents do report business-like collections for each account, but the budget's summary tables that are used by the executive branch, the Congress, and the public in discussing the Federal budget and in setting functional targets and ceilings are on a net basis and do not report the magnitude of collections in the individual accounts.

OMB also restates their position that changing from reporting net outlays to gross outlays would interject inconsistency into the budget. They suggest that the change would be made for some accounts and funds but not others. This is not the meaning we intended by our report's recommendation. We favor gross reporting for all accounts, as stated in our report (see page 3).

OMB states that budget receipts should only include tax revenues because they are commonly understood to represent the general level of the tax burden on the public. Our recommendation would include business-like revenue from the public in the budget receipts category. We do not see this as a problem that cannot be adequately dealt with through proper explanation of what would be included in revenue totals.

OMB further suggests that the Congress does not lose control over proprietary receipts because they generally do not provide additional spending authority. The portion of offsetting revenue which OMB refers to s "proprietary receipts" was included in our discussion of business-like revenue from the public. The OMB comment is correct insofar

as offsetting receipts (unlike offsetting collections) are not credited to individual accounts and, therefore, do not increase the budgetary resources of individual programs (micro-budget level). However, offsetting receipts are credited to (subtracted from) agency and functional budget totals, thereby affecting the aggregate and functional totals (macro-budget level) that are reported in and controlled by the budget resolutions. The Congress needs budget reporting that supports its micro and macro decisionmaking. Its decisionmaking at the macro level on the budget's aggregate and functional totals is hampered by understated totals due to the offsetting practice. However, even though we do not speak specifically of proprietary receipts, this does not alter our argument that using proprietary receipts as offsets understates budget totals and obscures what is being spent. While it is possible for the Congress to reconstruct gross levels, we believe it would be better if gross levels were reported now.

OMB notes that we have expanded the definition of "backdoor spending" by viewing offsetting collections as a form of backdoor authority, i.e., spending authority provided in legislation outside the normal appropriation process. Even though OMB notes that accounts with offsetting collections often are controlled by congressional appropriation act limitations, the limits are not counted as budget authority amounts. The budget authority amounts shown and controlled at the account level (micro level) and included in the congressional budget resolutions (macro level) are understated by using offsetting collections. Therefore, the budget authority provided by appropriation does not fully express the total budget resources available where offsetting collections are used. This constitutes, in our opinion, a form of backdoor authority.

Also, OMB comments that the draft report incorrectly stated that offsetting collections in the budget have grown from $4.9 billion in fiscal year 1967 to an estimated $82.3 billion in 1981. They state that the two amounts are not comparable and both are incorrect. They further state that there was no growth in offsets in the 1967-81 period--indeed, there was a decline, according to OMB, if offsets are measured as <u>percents</u> of total outlays. OMB asserts that this decline undermines our position that circumstances have changed sufficiently to reverse the 1967 President's Commission on Budget Concepts position on offsetting. These OMB points are discussed below.

They note that the $4.9 billion did not include all offsetting business-like revenue. It excluded collections offset in expenditure accounts. The full amount, according to OMB, should be $27 billion. We agree that collections

offset in expenditure accounts should be included and have revised the figure in this final report.

As for the offsetting amount for fiscal year 1981, OMB points out that the draft report amount, $82.3 billion, incorrectly excluded the offsetting business-like revenue in off-budget entities. Furthermore, it included $12.2 billion in amounts that had been mistakenly classified in OMB budget schedules as offsetting revenue. The revised amount, according to OMB (see OMB table on page 28), should be $101.6 billion.

The draft report's discussion of $82.3 billion in 1981 offsets was in a section addressing only on-budget matters. The additional $31.5 billion in off-budget offsets were addressed in a later section concerning off-budget matters. Based upon OMB's comments, we revised the discussion to cover at one point both on-budget and off-budget offsets (see page 5). Also, we revised the $82.3 billion for on-budget offsets to $70.1 billion (see page 5) to correct for the $12.2 billion miscoding noted in the OMB comments.

In this final report we have deleted reference to any dollar growth in offsets over fiscal years 1967-81. The report makes clear that total offsets over fiscal years 1967-81 have not changed significantly if measured on a percentage basis. The report notes (see page 5), as OMB observes, that total business-like offsets represented 20 percent of total outlays in 1967 and 16 percent in 1981. We note that the 16 percent for 1981 represents a very large dollar amount, $101.6 billion--an amount equal to about one-fifth of total outlays.

Furthermore, we do not agree with OMB that this percentage decline undermines our position that circumstances have changed sufficiently since the 1967 President's Commission on Budget Concepts to reverse their decision on offsetting. Our discussion on changed circumstances since the 1967 President's Commission is based primarily on changes brought about through implementation of the 1974 Congressional Budget Act. Relative growth or decline of amounts excluded from the budget is not the issue. The issue is that significant budget amounts were, and continue to be, excluded from the budget totals.

We hope this information will be useful to the Congress in considering further improvements in the budget process.

Sincerely yours,

Elmer B. Staats
Comptroller General
of the United States

Enclosures - 5

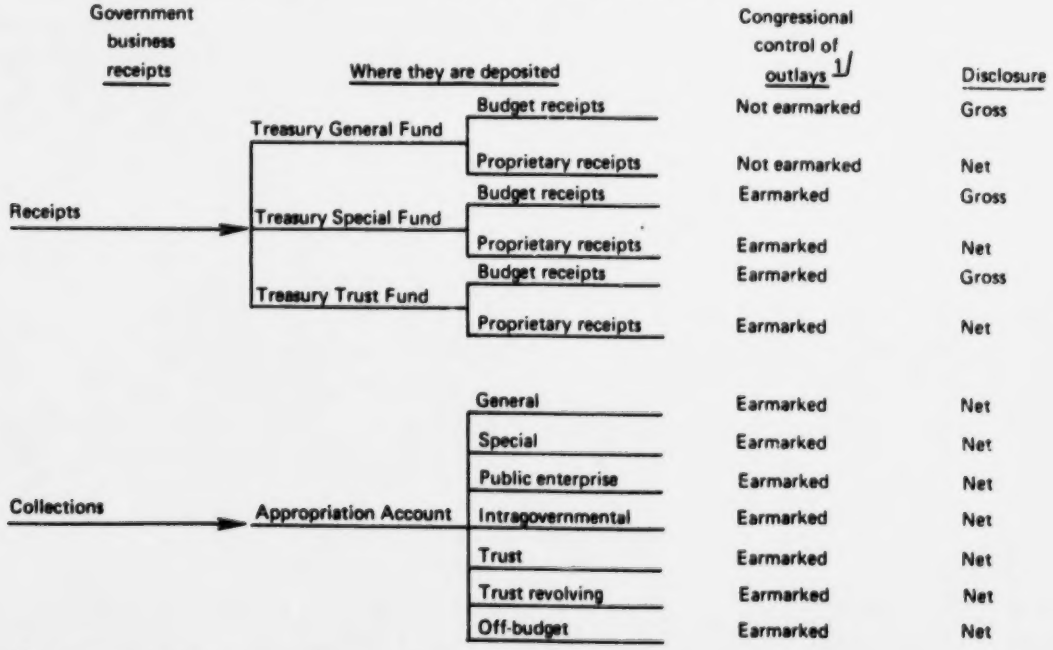
ENCLOSURE I

DESCRIPTION OF RECEIPTS AND COLLECTIONS

An important part to understanding the impact of the net versus gross concept on outlay totals is knowing where Federal revenue is deposited and how it is made available for obligation and outlay. As all types of revenue from the public comes in (whether or not it is offset from outlays), it is deposited in various accounts and spent according to authorities prescribed in legislation. Most revenue ($600 billion estimated for fiscal year 1981 such as taxes, etc.) is not offset from outlays. These revenues are, however, compared with outlays (net) when calculating the deficit. For example, net outlays of $615.8 were subtracted from revenues of $600 billion to produce a deficit of $15.8 billion reported in the President's budget presented to the Congress in January 1980. The flow of Government receipts and collections, showing where revenue is deposited and whether or not it is earmarked or offset from outlays, is illustrated in figure 3.

Figure 3

FLOW OF GOVERNMENT RECEIPTS AND COLLECTIONS FROM THE PUBLIC



1/ Generalization. Earmarked for expenditure by previous legislation. Controllability could be restored by changing the law.

ENCLOSURE I

Business-like revenue from the public which is offset from outlays is divided into two categories--receipts and collections--in order to recognize certain characteristic differences and similarities. The major differences between the two are where these transactions are recorded, at what level they are offset, and the availability of the revenue for obligation and outlay. Receipts are deposited into the Treasury's general fund unless there is statutory authority that they be deposited into special or trust funds to be spent only for specific programs or activities (i.e. earmarked). Collections, on the other hand, are deposited into appropriation accounts. They are made available for obligation based upon legislation authorizing their immediate use for specific programs or activities. Collections are not subject to further congressional action. Differences and similarities between receipts and collections, especially where they are offset from outlays, are summarized in figure 4.

Figure 4

Characteristics of Federal Business-like Revenue From the Public

Receipts	and	Collections

Similarities:

1. Federal business-like revenue results fom market-oriented activities of the Government (for example, loan repayments, interest, sale of property and products, charges for nonregulatory services, and rents and royalties).

2. They are offset from Federal budget outlay totals.

3. Collections and some receipts (i.e. for Treasury special and trust funds) are permanently earmarked in indefinite amounts and require no further action by the Congress for obligation and outlay.

Differences:

1. Funds are deposited into Treasury receipt accounts.	Funds are deposited into appropriation accounts when specifically permitted by legal authority. Without such authority they should be treated as receipts.

ENCLOSURE I

2. Most funds are deposited into the general fund of the Treasury and require appropriation action by the Congress.	Funds are immediately available for obligation and outlay without further action by the Congress.
3. Amounts do not reduce appropriation account outlay totals. Most subtractions occur at the functional and agency levels. Some occur at the overall budget outlay totals.	Subtractions from budget outlay totals occur at the account level.

Examples:

Rents and royalties on the Outer Continental Shelf	Sale of power by the Tennessee Valley Authority
Sale of timber and other natural land products	Fees from transportation services of the U.S. portion of the St. Lawrence Seaway
Repayments (including interest) on foreign military credit sales	Repayments of loans from the lending operations of the Small Business Administration
Sale from the stockpile of strategic and critical materials (except sales of materials being rotated)	

ENCLOSURE II

Gross Compared With Net Budget Treatment By Function for Fiscal Year 1981 (January 1980 Estimates) (dollars in billions)

Functional Category	On-Budget				Off-Budget		Total on and off budget proposed gross treatment	Difference from current net
	Net outlays	Collections	Receipts	Gross treatment	Net outlays	Collections		
050 National Defense	$146.2	$ 5.0	$ .8	$152.1	$	$	$152.1	$ 5.8
151 International Affairs	9.6	2.7	10.3	22.6			22.6	13.0
250 General science, space, and technology	6.4	--	*	6.4			6.4	*
270 Energy	8.1	2.2	2.5	12.8			13.5	5.4
300 Natural resource and environment	12.8	.3	2.3	15.4			15.4	2.6
350 Agriculture	2.8	11.4	.1	14.3			14.3	11.5
370 Commerce and housing credit	.7	10.8	*	11.6	17.9	30.6	60.1	59.4
400 Transportation	20.2	.3	.5	21.0	.1	*	21.1	.9
450 Community and regional development	8.8	1.4	.4	10.6	.1	.1	10.8	2.0
500 Education, training, employment and social services	32.0	.7	*	32.7			32.8	.8
550 Health	62.4	2.0	*	64.4			64.3	1.9
600 Income security	220.0	2.4	*	222.4	-*	.1	222.5	2.5
700 Veterans benefits and services	21.7	1.7	.9	24.3			24.3	2.6
750 Administration of justice	4.7	.1	*	4.8			4.8	.1
800 General government	4.9	.2	.1	5.2			5.2	.3
850 General purpose fiscal assistance	9.6		*	9.6			9.6	*
900 Interest	67.2		.1	67.3			67.3	.1
999 Multi-function		3.5		3.5			3.5	3.5
Undistributed receipts	-25.1		6.0	-19.1			-19.1	6.0
Allowances	2.6						2.6	2.6
Total a/	$615.8	$44.7	$25.4	$685.9	$18.1	$31.5	$735.5	$119.7

*Less than $50 million.
a/Columns may not add to totals due to rounding.

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ENCLOSURE III

Effect on Revenue Totals of Eliminating Offsetting and Off-Budget Practices (January 1980 estimates)

(Dollars in billions)

Revenue Now Reported:	1979 Actual	1980 Estimate	1981 Estimate
Individual income taxes	$217.8	$238.7	$274.4
Corporation income taxes	65.7	72.3	71.6
Social insurance taxes and contributions	141.6	162.2	187.4
Excise taxes	18.7	26.3	40.2
Estate and gift taxes	5.4	5.8	5.9
Customs duties	7.4	7.6	8.4
Miscellaneous receipts	9.2	10.9	12.1
Total, (revenue now reported)	$465.9	$523.8	$600.0
Included as Revenue: (eliminating off-setting and off-budget practices)			
Proprietary receipts	$ 18.7	$ 21.3	$ 25.4
Collections	33.9	40.0	44.7
Collections (off-budget)	21.9	27.3	31.5
Proposed Total Revenue	$540.4	$612.4	$701.6

ENCLOSURE IV

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 17 1980

Mr. Morton A. Myers
Director, Program Analysis Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Myers:

This responds to your request for comments on the draft report: "Federal Budget Totals are Understated Because of Current Budget Practices." The draft report addresses a perceived weakening of the budgetary process and of Congressional ability to establish national spending priorities due to the treatment of netting offsetting collections from budget authority and outlay totals and the exclusion from the totals of budget authority and outlays of off-budget Federal entities.

Treatment of offsetting collections

On previous occasions, we have stated our objections to GAO recommendations that the financial activities, particularly collections from non-Federal sources, of public enterprise funds be reported on a gross basis. In summary, we stated that:

-- the present system conforms to the precepts laid down by the President's Commission on Budget Concepts to create an integrated system of grossing and netting.

-- full information is disclosed on gross collections and disbursements in order for the Congress to consider priority allocations among functions.

-- collections of public enterprise funds are not transferable among functions in determining priority allocation of budgetary resources, but are specifically identified with the programs generating the receipts.

These comments were made in assessing the netting treatment for collections of public enterprise funds. We believe that these views also are applicable to the netting of business-type earnings (i.e., collections from non-Federal sources)

in general, special, and trust fund accounts, as well as in public enterprise funds. The report also references our previous objection to the inconsistency that would be created by the netting recommendations for public enterprise funds. Our former statement against varying netting treatment due to fund classification is still valid and we maintain that the consistency of the current treatment should be retained for the reporting of all offsetting collections.

The most significant recommendation of the President's Commission on Budget Concepts was to adopt a unified budget concept as an effective instrument for managing national affairs and meeting major policy objectives. The Commission recommended the unified budget concept to lessen confusion caused by competing budgetary concepts and structures, while recognizing the budget's multiple purposes:

"A Federal budget lays out a two-part plan of action:

-- It promotes particular programs, military and civilian, designed to promote national security, international cooperation, and domestic progress.

-- It proposes total expenditures and revenues designed to help maintain stable economic prosperity and growth."

The report qualified further that, in assessing the role of the Federal Government in the total economy, the budget totals should logically reflect certain collections as offsets against expenditures as:

". . . a more appropriate index of the relative size of government in the national economy if loan repayments and receipts which resemble business-type enterprise earnings, or returns on government property, are offset against expenditures to which they relate or for which they are earmarked, while taxes and other revenues representing the exercise of sovereign or regulatory powers unique to government are treated as budget receipts."

We continue to support these recommendations of the Commission, and we continue to believe that your report (on pages 7 to 11) misses the fundamental logic of the Commission's recommendations. For example, your statement at the top of page 10 that: "Not including offset outlay

items makes it unnecessarily complicated to determine exactly how much Federal resources are being expended for an individual functional area or areas" is the opposite of the Commission's position and, moreover, is a questionable premise. It can be argued that the Federal resources being expended are the net amount, not the gross amount. Budget receipts are a general measure of the tax burden on the public. When the legislative and executive branches--as well as the press and public--make economic comparisons (e.g., budget receipts as a percent of GNP), the common understanding is that such analyses express the tax burden for financing the Government relative to the economic base. The proposed grossing of collections would make such comparisons misleading, since in common parlance the public associates budget receipts with taxes. A related misunderstanding would arise in the functional spending totals because these totals would no longer show the amount of outlays that must be financed by taxation or borrowing.

Proprietary receipts

Although the draft report recommends 1/ against netting proprietary receipts from budget authority and outlay totals, it does not elaborate on this specific position. The general argument against offsetting budget totals, however, relates to the loss of control over these funds (i.e., the contention that, by offsetting budget authority and outlays by the collections, the accounting permits agencies to spend money without further Congressional review). This argument is totally inapplicable in the case of proprietary receipts from the public. Proprietary receipts as such do not provide agencies with additional spending authority (i.e., budget authority), and outlay figures are reduced in amounts equal to these receipts. Therefore, netting proprietary receipts has no effect on the level of obligations an agency may enter into. It is true that some earmarked proprietary receipts can result in new budget authority and outlays without any further Congressional action. In all such cases, it is due to the permanent earmarking of these funds by the Congress--not to the existence of any offsetting treatment. Reflecting all proprietary receipts on a gross basis would not change this situation.

1/OMB is referring to recommendations in issued reports which we have identified on page 12 of this report.

Off-Budget Entities

We recognize that the existence of off-budget transactions is a problem. To the extent possible, budget tables and summaries fully disclose the level of all Government financial activities, including the activities of off-budget entities. The budget provides the detailed information for each of these entities, and prominently reflects the effect of these outlays in various tables in the budget document. However, the exclusion from budget totals is specified in law.

As you know, section 606 of the Congressional Budget Act provides that the House and Senate Budget Committees shall study on a continuing basis those provisions of law that exclude agencies or any of their activities from the budget and report their recommendations to their respective Houses. The House Committee completed such a study in 1976. It recommended that all off-budget entities, except the Federal Financing Bank, be returned to the budget. Since then, the Exchange Stabilization Fund and the Export-Import Bank have been. Legislation that would return all off-budget entities to on-budget status has been introduced on more than one occasion but has not been acted on by the Congress.

Congressional control of the budget

The report asserts that offsetting practices "may make it unnecessarily cumbersome for the Budget Committees to identify and control actual Government resources being spent and to appraise their impact on the economy." It also proposes an expanded definition of backdoor authority to cover offsetting collections. Finally, a recommendation is made for a systematic and periodic verification for the necessity of earmarking collections for particular programs.

The first argument is not supported or demonstrated by the report's findings. Nor, to our knowledge, do the Budget Committees agree with it. We are in routine contact with the Budget Committees and are unaware of any belief on their part that the present approach is inappropriate. The primary purpose of the Congressional Budget Act's requirements for setting budget totals in resolutions is based on providing a coordinated review of recommended activity levels that is tempered by overall ceilings within which all budgetary resources are allocated. The allocation of budgetary resources recognizes that certain offsets are made in arriving at functional ceilings due to the methods of financing certain programs. The Committees also understand quite clearly that the receipts of revolving funds are directly related to the outlays against which they are offset and are not available for other uses.

We maintain that it is misleading to analyze the Government's role in the economy by the trends and impact of its activities solely based on budget authority and outlay totals. Even under the recommended reporting changes, significant stimuli to the private sector would remain outside the budget totals. These include, among other categories, Federal guarantees of loans provided from private sources, incentives under tax expenditure provisions of law, and the control of money supply in regulating the national economy. That does not mean that the impact of these transactions is ignored. For example, significant changes have been made in the last several years to examine and control the level of loan guarantees in the budget process, even though a portion of the programs are not likely to have any effect on budget authority or outlay totals.

The definition of "backdoor spending" has been expanded in your report to cover offsetting collections available for expenditure without the need for any Congressional appropriations action. On this point, we believe your arguments are misdirected. While current Congressional action is not always required for use of these funds, the Congress has complete discretion in controlling these funds as it wishes. For example, (1) certain special fund receipts are available only to the extent that they are appropriated as budget authority in annual appropriations acts, and (2) certain public enterprise fund activities are specifically controlled through limitations in appropriations acts either as required by law or as Congress expresses a desire to control these activities. Furthermore, the scope of activities (and accordingly, collections) in revolving funds is generally limited by the capital corpus of the fund necessary for cash flow purposes. OMB policy limits the augmentation of capital to either (1) amounts especially appropriated for this purpose or (2) transfers from other appropriations, as authorized in law. Furthermore, it is the Administration's policy, and we believe generally the view of the Congress, that the revolving fund mechanism should be authorized only for businesslike operations, where the level of activity tends to be determined by demand and the resulting collections.

Rather than focusing on offsetting collections, a more important consideration in reviewing current Congressional control of budgetary resources may be the magnitude of budget authority that has been permanently enacted and does not require current Congressional action. In the 1981 Budget, it was estimated that $432.9 billion of 1981 budget authority will be made available through current action of Congress. On the other hand, it was estimated that $351.8 billion of

1981 budget authority will be available without current appropriations action. The latter amount represents 44.8 percent of the combined categories. (See page 555 of The Budget of the United States Government, 1981. Note: The amounts shown above do not reflect deductions for offsetting receipts, which are not separately attributable as an offset to either type of budget authority.)

We recognize that much of this permanent authority, as well as the use of offsetting collections, is authorized in laws enacted years ago. In this context, we support periodic review of the activities funded by all mechanisms of the Federal Government to ascertain whether these programs best serve the current needs of the Nation.

Data comparisons developed in support of your recommendations.

The report on page 9 incorrectly states that offsetting collections in the budget have grown from $4.9 billion in fiscal year 1967 to an estimated $82.3 billion in 1981. The two amounts are not comparable and both are incorrect. When the corrected data are substituted for the erroneous data, they undermine the argument that circumstances have changed sufficiently since the 1967 President's Commission on Budget Concepts that the Commission's recommendations in this regard should be reversed. In fact, they show a trend that is opposite that which you computed.

The error with regard to the $4.9 billion in offsetting collections stated for 1967 is that it reflects only one portion of such collections: proprietary receipts. To make a valid comparison, offsetting collections credited to expenditure accounts must be added to this total. These data can be derived from the object class analysis, and amount to $27.0 billion in 1967.

On the other hand, the 1981 estimated amounts for offsetting collections must be adjusted to include collections from off-budget entities and to reduce certain amounts to avoid double counting of transactions between on-budget activities and off-budget entities. In addition, some budget appendix schedules incorrectly classified receipts from the Federal Financing Bank (primarily for the purchase of certificates of beneficial ownership from the Farmers Home Administration) as being offsetting collections from non-Federal sources, rather than from off-budget entities. In total, the offsetting collections from the public (including the collections of off-budget accounts) were estimated to total $76.2 billion.

A summary of these amounts reveal that between 1967 and 1981, offsetting collections have actually decreased relative to the budget and off-budget totals.

(fiscal years, in billions of dollars)

	1967 Actual	1981 Estimates in 1981 Budget
Total budget and off-budget outlays.....	$158.3	$633.9
Proprietary receipts.....	$4.9	$25.4
Offsetting collections from non-Federal sources 1/.....	$27.0	$76.2
Total offsets.....	$31.9	$101.6
Offsets as percent of budget and off-budget outlay totals..	20.2	16.0

1/ Adjustments in the 1981 amounts (-$12.2 billion) have been made to correct reporting errors of certain collections from off-budget Federal entities (Federal Financing Bank) characterized as collections from non-Federal sources.

We trust these comments will be helpful to you.

Sincerely,

Dale R. McOmber
Assistant Director
for Budget Review

ENCLOSURE V

COMPTROLLER GENERAL'S REPORT TO THE HOUSE COMMITTEE ON THE BUDGET

REVOLVING FUNDS: FULL DISCLOSURE NEEDED FOR BETTER CONGRESSIONAL CONTROL

D I G E S T

The Congress establishes revolving funds to finance Federal programs which carry on a businesslike cycle of operations. Receipts from program operations are earmarked for future operations of the fund. Revolving funds became popular during the 1930s when many of the large Government corporations were founded. Although the number of funds has not grown recently, revolving fund financial transactions have. "The Budget of the U.S. Government" for fiscal year 1977 lists 185 revolving fund accounts with projected receipts of $70.6 billion and gross outlays (payments) of $75 billion--approximately 20 percent of the total Federal receipts and outlays projected for the year. (See pp. 2 to 9.)

Revolving funds are divided into three major groups (see pp. 4 to 6):

--Public enterprise: Business conducted primarily with customers outside the Government. These funds have the greatest impact upon congressional control.

--Intragovernmental: Business conducted primarily within and between Federal agencies.

--Trust revolving: Business conducted with receipts held by the Government in a fiduciary (i.e., trust) capacity.

In 1967, the President appointed the Commission on Budget Concepts to review Federal budget concepts and recommend changes in the Federal budget process. The Commission made two recommendations which have had a direct and lasting impact on revolving funds and their inclusion in the budget: (1) financial activities of public enterprise revolving funds should be included in the budget totals on a net outlay basis and (2) there should be a consistent classification of revolving fund accounts in the budget.

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Since enacting the Congressional Budget Act of 1974, the Congress has become more involved in the Federal budget process, especially in setting priorities among Federal functions. Because of the major changes in the budget process brought about by the act, GAO believes the practice of net outlay accounting for public enterprise revolving funds should be changed. Reporting public enterprise revolving funds in the Federal budget on a net outlay basis is misleading and understates the true magnitude of Government activities as well as the impact of individual revolving fund programs; thus, the Congress does not have the most complete information for making future budget decisions.

Steps should also be taken to reinforce the 1967 Commission's recommendation for consistent application of revolving fund criteria. Questions exist concerning accounts presently classified as revolving funds. (See pp. 42 to 58.)

NET OUTLAY ACCOUNTING

Although revolving fund transactions are presently accounted for in the budget on a net basis, the level of financial activity carried on by revolving funds would most clearly be shown by recording total outlays (i.e., on a gross basis). For example, of the $33.6 billion of Government financial activity projected to be conducted with the public through public enterprise revolving funds in fiscal year 1977, only $5.8 billion was included in the 1977 budget outlay totals. The $27.8 billion in receipts was deducted from the $33.6 billion in outlays and was not included. This $27.8 billion was, in effect, treated as if it were not part of the budget. (See p. 62.)

Although fiscal year 1977 budget data is used throughout this report (see p. 1), the conclusions and recommendations presented would not change if 1978 budget data were used.

The Director of the Office of Management and Budget should make appropriate changes in current budget procedures which will result

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in financial activities of public enterprise revolving funds being reflected in the Federal budget on a gross basis.

REVOLVING FUND CRITERIA

Revolving funds are not established by the Congress on the basis of any uniform criteria as to when revolving fund financing is necessary or appropriate. Moreover, authorizing legislation does not always clearly provide that a revolving fund is to be established. GAO, the Treasury, and the Office of Management and Budget provide different criteria for the classification of accounts as revolving funds. Some accounts classified as revolving funds do not meet the written criteria. For instance, although the criteria specifies that an activity should be self-financing, outlays often exceed receipts by large amounts in many public enterprise revolving funds. When this happens, the funds must receive some form of additional budget authority through appropriation acts. Other programs, with operations similar to revolving fund programs, have not been established as such by the Congress.

Together with the executive branch, the Congress should develop and utilize a common criteria for establishing and classifying all revolving funds.

Before establishing any additional revolving funds, the Congress should study the full financial implications of each new proposal and incorporate the findings of such a study in reports and documents on the legislation.

The Director of the Office of Management and Budget should periodically review, in depth, all established revolving funds in the budget to determine whether (1) they still meet the established criteria for revolving funds and (2) the accounts should continue to operate as revolving funds. The results of such reviews should be given to congressional committees, the Department of the Treasury, the Congressional Budget Office, and GAO.

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AGENCY COMMENTS

While the Office of Management and Budget agreed in principle with most of GAO's recommendations, it objected to GAO's recommendation that public enterprise revolving funds be included in the Federal budget totals on the basis of total expenses. In GAO's view, the Congressional Budget Act of 1974, with its greater congressional involvement in the budget process, requires full and complete disclosure of information to the Congress.

The House Appropriations Committee agreed with the thrust of the recommendations. The Department of the Treasury and the Congressional Budget Office believe GAO's recommendations merit serious consideration. These agencies and the Office of Management and Budget pointed out that GAO's recommendations, if adopted, will require changes in the budget process, especially in the methods of reporting and disclosing financial information. Making these changes will require coordination among concerned parties. GAO believes this should be done and will assist in the task.

ENCLOSURE V

COMPTROLLER GENERAL'S REPORT TO THE BUDGET PROCESS TASK FORCE HOUSE BUDGET COMMITTEE

FEDERAL BUDGET OUTLAY ESTIMATES: A GROWING PROBLEM

D I G E S T

GAO found a large and growing variance between estimated and actual outlays as shown by a 17 percent, or $7 billion, increase in the budget year difference for 50 large accounts from fiscal years 1977 to 1978. First estimates varied from actuals by $37 billion. The same accounts in fiscal year 1978 varied by $44 billion. (See p. 3.)

Estimates generally swing between longfalls, or underestimates in the budget year, and shortfalls, or overestimates in the current year. In 1977, for example, there was a $17 billion swing from an $8.6 billion longfall to an $8.4 billion shortfall. The budget year estimates reflect the administration's concern about the growing deficit and the need to hold down spending. The shift to a shortfall, or overestimate in current year estimates (12 months later), reflects the administration's assessment of actual financial needs to carry out legislation enacted by the Congress. (See p. 10.)

Fiscal year 1977 and 1978 estimates at critical points in time vary significantly from actuals. However, there is early evidence that fiscal year 1979 outlay estimates may not result in a shortfall. (See p. 11.)

The estimating process is not an exact science; rather it is flexible and changing. It can be influenced by a number of variables. Many of these variables are uncontrollable, such as the effect of congressional action, and others are controllable, such as historic upward bias (the past tendency to overestimate). Budget data must be accurate to be useful.

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Controllable factors should be of concern to improve outlay estimates. (See ch. 4.)

As a result of increased interest in outlay estimates, both the Office of Management and Budget and the Congressional Budget Office are striving to achieve more accurate estimates. For example, the Office of Management and Budget is increasing its emphasis on regular tracking of outlays and comparisons with projections. The results of these efforts are not yet known, but GAO believes they are a step in the right direction. (See ch. 5.)

The Director, Office of Management and Budget, should make further efforts to improve outlay estimates by:

--Establishing criteria for acceptable levels of accuracy for estimates, to be used as a guide in defining significant variances to be pursued.

--Comparing actual outlays to estimates and providing a detailed explanation annually concerning those accounts in which there were significant variances.

--Identifying corrective action to improve estimates in future years when such action is feasible.

--Making information on variances and related corrective action available to congressional users and including it in budget justifications where appropriate.

--Applying early efforts in goal setting and variance analysis toward accounts with the largest outlays.

--Requiring each agency to document the procedures used to develop outlay estimates, including documenting assumptions and subjective modifications made by reviewing officials.

ENCLOSURE V

GAO found that $76.4 billion in outlays was not included in fiscal year 1977 Government-wide net outlays of $402.8 billion. These outlays included both offsets from collections and receipts from business transactions with the public and outlays of off-budget Federal entities. Estimates of offsetting collections and offsetting receipts have not been reliable. The current method of presenting these transactions as offsets against budget authority and outlays distorts budget numbers and makes the budget unnecessarily complex. (See p. 32.)

The Director, Office of Management and Budget, should also:

--Change the presentation of offsetting collections from non-Federal sources and offsetting receipts from the public by including them in revenue totals and by not subtracting them from budget authority and outlays. This recommendation involves only a change in presentation of data for clarity. Availability of revenues from business-type transactions is not affected.

--Include offsetting collections and offsetting receipts from off-budget agencies under revenues and not subtract them from budget authority and outlays. As long as off-budget agencies are excluded from budget totals, this change will not result in double counting. Off-budget agencies should be returned to the budget. (If they are returned to the budget, this recommendation would no longer be appropriate.)

--Apply the recommendations set forth to improve outlay estimates to estimates of offsetting collections and offsetting receipts.

ENCLOSURE V

AGENCY COMMENTS

At the request of the Budget Process Task Force, House Budget Committee, GAO did not obtain agency comments on this report. However, GAO received oral comments on case studies from the various agencies concerned and from analysts at the Office of Management and Budget and the Congressional Budget Office.

ENCLOSURE V

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

SPENDING AUTHORITY RECORDINGS IN CERTAIN REVOLVING FUNDS IMPAIR CONGRESSIONAL BUDGET CONTROL

D I G E S T

Program administrators use "budget authority" to borrow amounts from Treasury or non-Treasury sources to finance their revolving fund loan programs. In some cases, this authority--"borrowing authority"--represents authorized net borrowings (gross borrowings less repayments) rather than authorized gross borrowings. (See p. 3.)

BORROWINGS EXCEED RECORDED AUTHORITY

As a consequence of the netting procedure, a program's total (gross) borrowings in a fiscal year can easily exceed its recorded borrowing authority for the year. Furthermore, this gap between the authority recorded in the budget and total borrowings can increase in succeeding years as recordings of borrowing authority are used for several cycles of borrowings--rolled over. Over fiscal years 1932-79, Government-wide recorded authorizations for borrowings from Treasury totaled about $232 billion, while total actual borrowings from Treasury came to about $460 billion--almost twice the amount of recorded authorizations. (See p. 4.)

There were programs in 22 accounts spanning 12 Federal departments and independent agencies in fiscal year 1979 which had followed the netting procedure in their borrowings from both Treasury and non-Treasury sources. These programs had outstanding borrowings from Treasury (September 30, 1979) totaling about $96 billion. (See p. 13.)

CONGRESSIONAL BUDGETARY CONTROL SUFFERS UNDER THE NETTING PROCEDURE

GAO believes that the Congress' budgetary control, including annual controls on program and aggregate budget authority amounts,

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suffers when budget authority recordings for revolving fund loan programs express authorized net borrowings, for several reasons.

First, net-based recordings of borrowing authority do not disclose the full amount--which they should--of obligational authority made available through authorized borrowings. Each borrowing adds obligational authority, and repayments on borrowings during a year should not be used to obscure the obligational authority made available by one or more new borrowings in the same year. Congressional attempts to control obligational authority by acting on net-based borrowing authority will not completely control actual obligational authority levels, and result in budget totals that provide a distorted picture of the obligational authority provided through borrowing authority. (See p. 22.)

Second, use of net-based borrowing authority amounts lessens budgetary consisteny, thereby complicating the budgetary process and making it more difficult for the Congress to set priorities and make comparisons among programs. GAO notes that budget authority recordings and totals for programs financed with appropriations represent gross, not net, funds. (See p. 24.)

Also, there are several programs in the budget in which borrowing authority recordings represent authorized gross borrowings, not net. Therefore, use of net-based borrowing authority recordings and figures interjects inconsistency into budget amounts. This inconsistency also applies to the amounts and and totals in the Congressional Budget Office's budget "scorekeeping" reports. It is difficult for the Congress to set priorities among programs and achieve the intended results if programs'funding levels are conputed under different rules. (See p. 27.)

Third, net-based borrowing authority often entails "backdoor spending." GAO believes that the Congress' budgetary control is weakened when agencies may conduct several

cycles of borrowings in the absence of new congressional authorizations. It is GAO's position that the public interest is best served when congressional control over Federal activities and funding levels, including borrowings, is exercised through periodic reviews and affirmative action in the appropriations process. (See p. 27.)

GROSS-BASED BORROWING AUTHORITY IMPROVEMENT MIGHT NOT GO FAR ENOUGH

Conversion to gross-based borrowing authority in revolving fund loan programs would result in budget authority recordings that express more fully the obligational authority made available through borrowings. However, such gross recordings, plus any other recordings under current procedures (appropriations, contract authority), still might not fully express total obligational authority made available. Total obligational authority in these revolving fund programs also includes (besides authority derived from borrowings, appropriations, etc.) the collections made available through the cycle of program operations and assorted financing mechanisms (sale of assets, etc.). Budget authority recordings in these cases should encompass the authority to obligate funds whatever their source, including collections from program operations. (See p. 30.)

RECOMMENDATIONS

The Director of OMB should revise the way the definition of budget authority is applied to revolving fund loan programs so that budget authority for these programs is the amount of gross obligations, or gross loan obligations, authorized to be made. (See p. 36.)

The Congress, in reviewing revolving fund loan programs, should place specific limits on the gross obligations, or gross loan obligations, authorized to be made, and require that such limits be treated as the relevant budget authority amounts. (See p. 36.)

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AGENCY COMMENTS

OMB and Treasury disagree with GAO's position that budget authority for revolving fund loan programs should express the amount of gross obligations, or gross loan obligations, authorized to be made. Officials of OMB agree, however, that the Congress should place limits on obligations in revolving fund loan programs, and agree that conversion to gross-based borrowing authority (instead of net-based) for certain types of revolving fund programs would be an improvement. The agencies' comments including certain technical objections, are discussed in appendixes VI and VII. GAO also discussed technical aspects of the draft report with the case study agencies (see appendixes I, IV, and VIII).

GAO still concludes that its recommended changes are needed, and that the report's technical discussions are accurate.